

SECTION 6: OPERATING ENVIRONMENT FOR THE OFFER OF ISLAMIC SECURITIES IN OR FROM THE DIFC

The DIFC provides scope for the 'offer of securities' in or from the DIFC, and listing on its own exchange, the Dubai International Financial Exchange 'DIFX' which was authorised by the DFSA as an Authorised Market Institution (AMI) on 26th September 2005.

Offers of Securities In or From the DIFC

Securities can be offered in or from the DIFC. The DIFC Markets Law prohibits the offer of securities in or from the DIFC unless the offer is made in accordance with the relevant provisions of the DIFC Markets Law and offered as either a full prospectus offer or exempt offer.

Where the offer is made in the DIFC, i.e. if the offer is directed at or received by a person in the DIFC at the time of making the offer and is capable of acceptance by such an offeree, then the offer can either be a Prospectus offer or an Exempt offer. Such offers are subject to the DIFC Markets Law and the DFSA Offered Securities Rules Module (OSR).

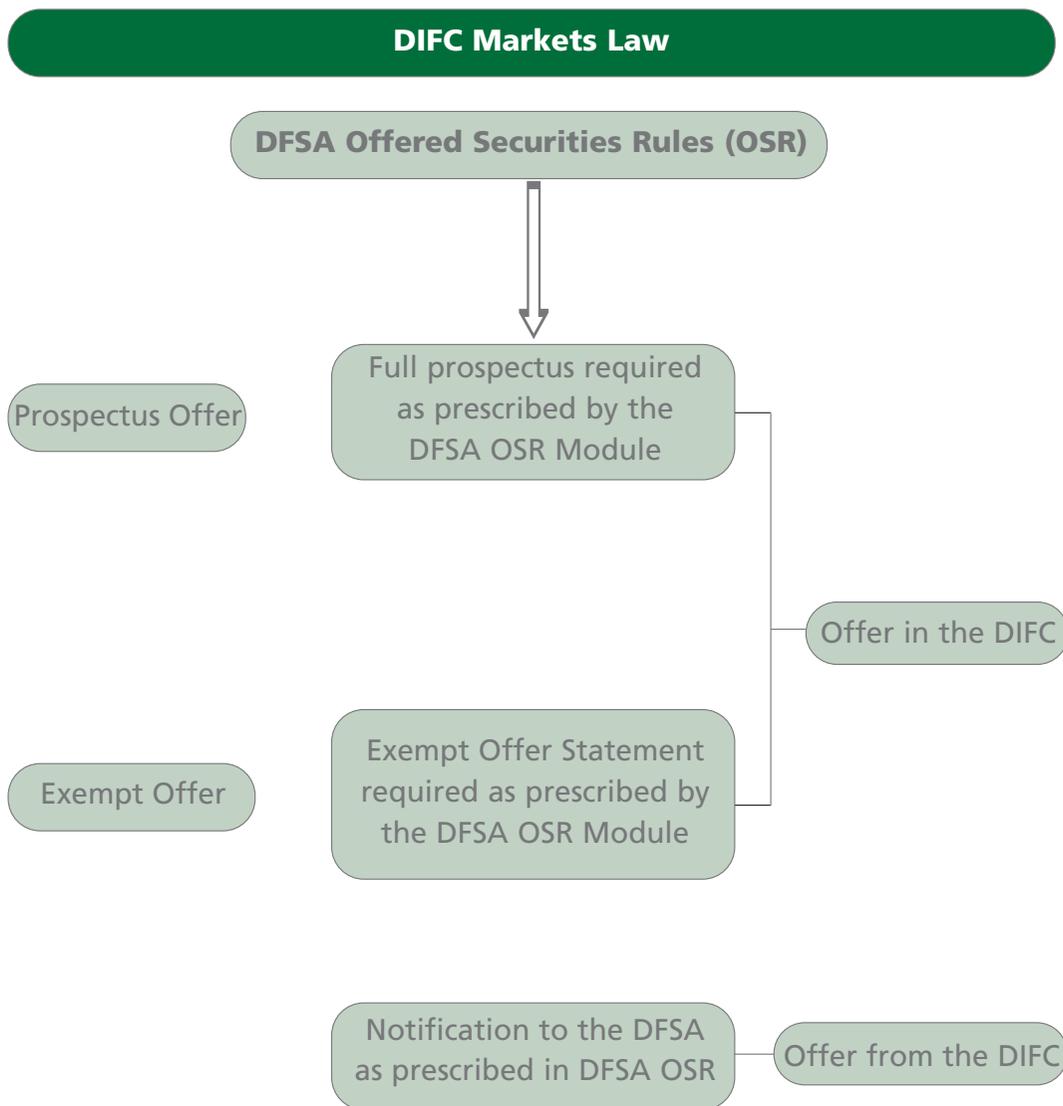
An exempt offer is an offer of securities which are offers of Securities made by the following offerors:

- (a) by recognised governments or other persons on the list of exempt offerors maintained by the DFSA in the Offered Securities Rules;
- (b) made to and directed at Professional Investors;
- (c) made in connection with a takeover offer; or
- (d) as may be prescribed by the Offered Securities Rules. The DFSA OSR prescribes in detail what type of offers are Exempt offers.

Where the offer is not an exempt offer and falls within the requirements, a full Prospectus offer must be made.

A full Prospectus offer of securities requires the appointment of a Sponsor and Underwriter.

Where the offer is made from the DIFC i.e. if the person making the offer is located inside the DIFC, the person to whom the offer is made is located outside the DIFC and the offer is capable of being accepted by that person, the person making the offer must notify the DFSA providing the relevant information as set out in the DFSA OSR Module including details of the jurisdiction to be targeted and confirmation that the offeror will comply with the relevant obligations in that target jurisdiction.



Offers of Islamic Securities

Where the offer relates to Islamic securities, the prospectus must also include details of the Shari'a scholars that have approved the offer and any other disclosures required by AAOIFI's Shari'a Standards in respect of Sukuk offers.

Listing on the DIFX

The DIFC boasts its own international financial exchange which is home to the worlds largest Sukuk market. Under the provisions of the DIFC Markets Law, and the DFSA Authorised Market Institution Rules (AMI Module), the DFSA requires the DIFX to put in place appropriate listing requirements

and business requirements. The DIFX has therefore implemented the DIFX Listing Rules and DIFX Business Rules.

The DIFX currently provides a platform for the listing and trading of securities which are admitted to the official list of securities maintained by the exchange. Currently the DIFX provides a platform for the listing and trading of:

- Equity
- Debentures
- Certificates
- Units of Funds
- Index products
- Islamic Securities
- Designated Investments

The DIFX permits primary and secondary listings. When an issuer proposes to list securities the requirements of the DIFX must be adhered to. The DIFX is then under an obligation to notify the DFSA of its intention to list the securities at which point the DFSA may object to the admission of the securities to the official list of securities maintained by the exchange.

Sukuks in or from the DIFC

The DIFC is recognised as being home to the largest sukuk market in the world. Several sukuks have been offered in or from the DIFC, and listed on the DIFX.

Sukuks are often referred to or associated with conventional bonds. However there are some key differences with this association, namely that sukuks are asset-backed or based and the certificate holders, or sukuk holders, are deemed to be owners of the underlying assets and therefore entitled to the profit generated from those assets.

A common sukuk structure is based on an underlying Ijara contract (lease structure), whereby initial funds are raised from sukuk holders with the asset(s) identified as part of the structure leased out.

The rental income from such a lease is used to pay periodic returns, which can be variable although based on a fixed formula (tantamount to coupons), to the sukuk holders at fixed periods. Other sukuk models are being offered into the market the Sukuk-Al-Ijara has been the most the common structure to date although newer structures such as Sukuk-Al-Musharaka, and the DIFC Investments own Sukuk (issued by the Dubai Sukuk Centre) are introducing new Sukuk structures to the market.

Figure 13: Common Sukuk Structure – Sukuk-Al-Ijara

Stage 1 - Issue Day : Underlying Document: The Purchase Agreement.



Stage 2 - Lease Payment : Underlying Document: The Master Lease Agreement.

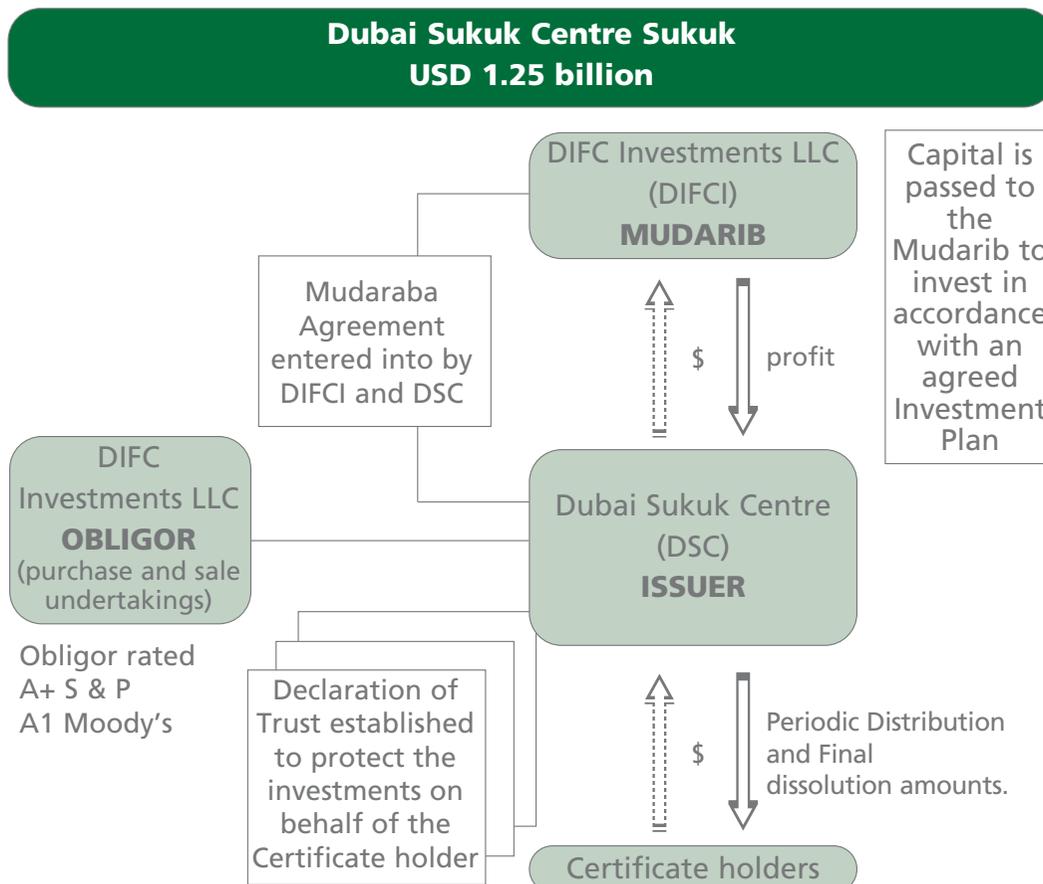


Stage 3 - Maturity : Underlying Document: The Sale Undertaking & Sale Agreement Purchase.



DIFC Investments issued a Sukuk in 2007 which is structured as a Sukuk-Al Mudaraba. The structure is set out below (as derived from the prospectus).

Figure 14- Dubai Sukuk Centre Sukuk-Al Mudaraba



Aside from being the largest Sukuk market in the world, the DIFX is also seeking to provide a conducive environment for Islamic Finance more generally and also offers products such as the Islamic Certificate Index products and recently developed a family of indices with HSBC, including the Sukuk Indices (SKBI), Middle Eastern Conventional Bond Indices (MEBI), and Middle Eastern Aggregate Indices (MEAG).